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BEYOND THE CRITIQUE OF SPECULATION

ECONOFICTION CAPITAL, DERIVATE, FINANCE, MARXISM, SPECULATION

In this talk I'd like to introduce my new book Capital and Time: For a New Critique of Neoliberal Reason. I will focus on one of the key themes of the book: the question of speculation.

If there is one thing that unites the different political economy critiques of the neoliberal financial system, it's the emphasis on its speculative character. The key idea here is that financial growth is driven not by the logic of efficient markets, but by "animal spirits," irresponsible bets on the future that are not warranted by fundamental values and consequently generate instability. Seen from that perspective, neoliberal finance generates overindebtedness: it's a system of "fictitious capital" that is not grounded in real value and therefore unsustainable. Accordingly, it is always seen as likely to collapse in the near future.

The empirical cue for the book is that predictions regarding the collapse of neoliberal finance have not enjoyed a good track record. Over and over, the contemporary financial system has proven more resilient than expected, capable of sustaining higher levels of speculative activity than anticipated. This has certainly been true of the past decade, since the financial crisis of 2007-08. So what do we make of this and what might be wrong or missing in the existing heterodox critique of speculation?

At the heart of the critique of speculation is a distinction between real and fictitious value: speculation is seen to generate financial forms or symbols that lack substance – their claim to value is fake, illusory. Speculation is seen as the investment in promises that lack foundation, as involving the incorrect or irrational attribution of value to fictions. What this means it that the critique of speculation is premised on a notion of true or real value, and in that sense it relies, implicitly or explicitly, on a foundational or essentialist notion of value.

The prominence of the critique of speculation would seem to suggest that the critique of foundationalism, essentialism, and determinism has bypassed modern-day political economy scholarship. But the opposite is the case. In fact, the critique of economic determinism and essentialism is one of its central concerns – it's something that it almost can't stop talking about. The idea that economic institutions are not simply given but socially, politically or otherwise "constructed" is at the heart of a great deal of political economy work. The problem is that this constructivist commitment has generally taken the form of intentionalist (or rationalist) constructivism, which assumes the process of construction to be transparent to itself and views ideas and norms as working in linear and predictable ways. In other words, the dominant perspectives in modern-day constructivism in political

economy are idealist.

Of course, constructivist scholars would and do reject the idea that they remain attached to a version of essentialism or foundationalism. The most common line of defense here is to reduce the problem of foundationalism to the problems with Marxist materialism (in particular the labor theory of value). In that way the critique of materialist determinism has becomes the pretext for a return to an idealist essentialism. And this quickly relapses into a materialist foundationalism of its own: assessments of the stability of social life are profoundly shaped by the contrast between speculative finance and the "real economy," and by a tendency to take the manufacturing economy of the Fordist era as a normative point of reference.

Scholars working in newer fields like cultural economy and social studies of finance have drawn on actor-network theory to develop the problematic of construction in a more profound way. Key here has been the theme of performativity, which has aimed at a more radical break with foundationalist assumptions. The central ambition of performativity scholarship has been to move beyond a traditional epistemological problematic, and to think measures and norms as immanent yet productive: they are performative both in the sense that they need to be performed (have no independent existence) and in the sense that they do something (they alter something in the existing state of affairs).

Highlighting this paradoxical aspect of norms and how the process of social construction works has at times been very useful, especially when set against the tendency in constructivist political economy to treat ideas and norms are "causal factors" (see also my PPE piece "What is constructivism for?"). But even the performativity literature has tended to be drawn back into a more idealist perspective. It's useful here to briefly look at how notions of performativity have changed as actor-network theory has moved from its original field of social studies of science into social studies of finance. Actor-network theory was originally founded on a strong anti-Kantianism: it was highly suspicious of traditional notions of representation. It tried to take the magic out of meaning by viewing questions of signification in terms of the topological dynamics of networks. But as actor-network theorists have moved into the study of money and finance, they have found it very difficult to avoid returning to an idealist perspective.

This is evident in particular in Callon's work, which views economic logics as effects of epistemic devices and economic theories. The somewhat hapless way in which the representational dimension is brought back into the picture suggests that it was never properly handled in the basic framework of actor-network theory. By this I mean that a healthy concern to avoid traditional metaphysics and representational idealism was awkwardly accompanied by a dismissive attitude towards questions of observation and reflexivity. Latour's "irreductionism" seeks to offer a clean solution to the problem of the epistemic moment, but this can plausibly be seen as its own kind of reductionism. And then the representational dimension can only return as precisely a Kantian take on performativity. This is why actor-network theory has been prone to get caught in a somewhat unstable back-and-forth between materialism and idealism.

To cut through this problem, in the book I follow Luhmann by reconstructing the performativity problematic in terms of the logic of self-reference. For Luhmann, there is no way to truly know whether the nature of things is essentially mind or matter. Any attempt to "solve" the question through a particular theoretical formulation is going to end up in a back-and-forth between materialism and idealism, both versions of foundationalism or essentialism. And this does more to reproduce than to productively engage the paradoxical character of the problem. And it is really this paradox that needs to be highlighted. That is, the ability of an identity to relate to itself is an inescapably paradoxical affair: reflexivity involves the continuous breaching of one's existing forms without ever attaining an external, transcendental position that would allow for ideal, linear representation – it's the ability to see oneself as constructed, as historical, without this automatically translating into an ability to see the totality of that historical process of construction. This makes Luhmann's brand of constructivism "radical": the process through which an identity is assembled never generates a consciousness that can comprehend itself in a transparent manner and can know itself objectively. Constructivism properly understood is the opposite of epistemic idealism. And this is where speculation comes into the picture.

At its root, the speculative character of life derives from the fact that the act of observation cannot observe itself. The classic image here is that of the eye that cannot see itself, and the inescapable blind spot this indicates is central to Luhmann's work. A system's machinery of seeing can be extremely sophisticated, but it cannot observe the totality of its own operations in real-time and therefore it can't ever fully predict or comprehensively control the effects of its own functioning. System reproduction always generates novelty and complexity that the system cannot anticipate or symbolize through those very capacities.

Every attempt to self-reproduce is therefore speculative, accompanied by an irreducible element of uncertainty that cannot be neutralized as a matter of principle. Crucially, however, it's not just that my relationship to the world is characterized by uncertainty; it's also that the world, made up of other actors, responds to this fact; which is something that I know and need to respond to. The world is composed of observers who observe other observers, and our speculations need to constantly adjust as they seek to size up and locate a moving target. As Luhmann put it in his book on risk, "Speculation takes its cue from speculation". Luhmann's work is essentially an extended meditation on the question of how this "double contingency" generates more or less stable forms of organization from within its own logic, endogenously, in the absence of an external engineer making clean, surgical interventions. The central idea of radical constructivism is that any attempt to steer or govern a system is itself part of the dynamic of the system.

Luhmann's conception of double contingency corresponds closely to what Orléan has referred to as "specularity", which expresses the idea that speculation is not a process whereby we guess at foundational values (although that is how we may

rationalize our speculations) but rather a process whereby we position ourselves vis-à-vis the speculative investments made by others. This refers to a Keynesian tradition of thought that has always been highly critical of mainstream ideas of perfect information and equilibrium. Post-Keynesian theory in particular, which tries to rescue Keynes' thought from its incorporation into mainstream economics, has argued that the focus of mainstream theory on quantifiable risk ignores the importance of real, incalculable uncertainty. But the problem with this approach is that it ends up separating risk and uncertainty. It understands probability as positive knowledge about the future rather than as a means to handle our lack of such knowledge. And that way uncertainty features as an external limit to statistical probability rather than as something that is always already at play in the engagement of risk.

We may recall here Keynes' famous comment about value being like a newspaper beauty contest. This drives at a notion of specularity, but it is almost always referred to in support of arguments that contrast the irrationality and groundlessness of speculative finance to the rational kind of finance that serves the production of real value. Genuine uncertainty is thus seen as indicating the point at which economic action becomes irrational, driven by speculations rather than real value. The result is an inability to systematically focus on and analyze what I argue is the real problematic of economy – namely the question of how order emerges through contingency – how coherent institutions and identities are possible in a world without metaphysical guarantees or foundations. Now that is of course more typically more seen as the classic problem-space of sociology or the social sciences at large, and that is certainly how it still appears in Luhmann's work. But essentially in my book I argue that in the current era we can understand this fruitfully as having a specifically economic dimension.

And here Minsky is extremely helpful – his work offers a very penetrating analysis of precisely that problematic. Of course, Minsky is widely known as the quintessential post-Keynesian critic of speculation, and the notion of the "Minsky moment" is typically used to refer to the moment when an unstable structure of speculative fictions begins to unravel. Such readings have plenty of textual support but they are certainly one-sided. Minsky was acutely aware that all investments were to some degree speculative in the sense that their success or failure would only be determined in an unknown future. As he put it, "the essence of capitalism is that units have to take positions in an uncertain world". Uncertainty is at the heart of the problem of economy: if the future could simply be discounted, all economic questions would be trivial.

Central to Minsky's account of self-organization is the logic of banking – that is, how the dynamic of interacting speculative positions generates economic order. A bank is an institution that enjoys no special foresight and does not escape risk, but is positioned in such a way that its promises come to function as a standard. People hold bank promises because it's a way to minimize their risk exposure – it's a source of stability in an uncertain world. And as a result the bank acquires an infrastructural role and importance. Banking represents an endogenous hierarchization of promises.

Of course, the endogenous origins of money (as arising out of dynamics of credit and debt) is a well-rehearsed theme in heterodox economics. The problem is that such arguments have never been able to divorce themselves from the more general idea that financial stability is at its core dependent on external interventions and constraints that work to suppress speculative impulses. A key example here is Modern Monetary Theory, for which this notion of the endogenous nature of money becomes a rationale for thinking that monetary policy can be a variety of rationalist engineering. For Minsky, however, this is to miss the point about endogeneity and represents a misleading way to think about financial governance. There is no clear dividing line between practices of banking and their governance, no qualitative break between the endogenous logic of specularity and the governance of that logic.

Central banking does not represent a means of exogenous regulation: it may be charged with a public purpose, but in terms of its basic operations it is itself a form of banking. Central banking responds to the particular properties of financial networks, the existence of financial nodal points in payments systems and the possibility that the failure of an entity will take down wider social structures. The process of financial management can therefore appear remarkably banal: when failure threatens, there is little to be done other than to shore up the key nodes of the payments system by providing them with additional credit and forms of insurance. At the heart of capitalist financial management is a too-big-to-fail logic based on backstopping and bailout. Minsky understood this very well and it led him to be highly sceptical towards claims of discretionary precision management made on behalf of modern monetary policy. In this respect I think Minsky is best viewed not as belonging to a Keynesian tradition of thinking or as someone who sought to recover the real Keynes, but rather as belonging to a tradition of pragmatic thinking about financial governance and the lender of last resort (which includes thinkers like Thornton, Bagehot, and Hawtrey, and which at present is continued in the work of Mehrling).

When post-Keynesians and other political economy scholars try to explain the stability of the post-New Deal financial system, they typically attribute this to the Glass-Steagall prohibition on stock market speculation by commercial banks. But for Minsky this really played only a secondary role. For him it was not so much a suppression of speculation but rather a means to redirect commercial bank financing towards other speculative ends, notably consumer and mortgage financing. He thought of the New Deal reforms rather as a way to adjust and expand the lender-of-last-resort function (which had failed to prevent American and global capitalism from sliding into the interwar crisis) – that is, to make it operate more preventatively, to extend its scope and make it less dependent on the discretion of Federal Reserve policymakers. This involved a range of institutions set up to proactively provide liquidity, but of central importance was deposit insurance, which was crucial in taking away the rationale behind bank runs by and which Minsky viewed as an integral part of the central banking function.

This was one of the main reasons that the early post-war period saw no major instability or meltdowns. But it also produced a permanent inflationary pressure, which created a very a distinctive set of governance challenges. The post-war Federal Reserve viewed managing inflation as one of its main tasks, but it was essentially counteracting the pressure that the New Deal arrangements had built into the system at large. Whenever the Fed tried to constrain banks' capacities for credit creation, the result was a rapid growth of new forms of banking outside the existing regulatory framework – what has recently come to be known as a "shadow banking system". Minsky was one of the first to note this trend in a paper published in 1957 and viewed it primarily as a reminder that the basic operational rationality of financial management consisted in last-resort lending, the provision of insurance. During the 1970s, the Federal Reserve increasingly came to understand the problem as one that was sustained at basic operational levels of financial management – which is something that can be traced in how its officials formulated the problem.

The dilemmas of financial governance became even more pronounced as it became clear that uninsured shadow banking meant a return to financial instability in a way that entailed significant system-level risk – and therefore would need a response. Extending insurance arrangements to the capital markets was not a viable option for both political and economic reasons, and so what seemed to be in the offing was a future of ad hoc bailouts. Minsky's own commentary on this situation reflected a certain kind of resignation – muddling through seemed to be the price of avoiding another financial crash and Great Depression.

It was the Volcker shock of 1979 that changed this dynamic. Specifically, it responded to the fact that the central bank was fighting a problem that its own operations helped to maintain. Volcker was well aware that the state's lending and insurance functions were an integral part of the endogenous process whereby money is constructed and were indispensable infrastructure. But at the same time, he saw the role of the state as a problem insofar as it contributed to inflation. He looked to monetarism not as a means to enforce an external limit on the financial system, but as a means to shake up expectations, as a way for the state to productively engage – rather than just accommodate – the endogenous dynamics of banking.

In other words, Volcker perceived the problem as one of how financial governance might change the way it related to a process in which it was constitutively implicated and could not simply extricate itself from. In that sense we might say that he reframed a Minskyan problematic through a Hayekian lens. Hayek's work prominently contains a radical-constructivist problematic – it argues against the idea that political authority can intervene from outside the endogenous logic of risk and speculation, against the possibility of sovereign, external interventions. But it draws very different conclusions from this than Minsky did. To Hayek's mind there really is only ever one problem, and that's the fact that we think it's possible to bypass the speculative logic of the market in the first place. If only we willingly embraced that logic of speculation, things would fall into place.

I am bringing Hayek in to suggest a specific perspective on the contours of a neoliberal rationality of governance, which is a notion that has received considerable attention in the wake of the publication of Foucault's lectures in The Birth of Biopolitics. Key here is the idea that neoliberalism does not involve a simple revival of classic liberalism: whereas classic liberalism was mostly focused on the utilitarian logic of market exchange as a sort of natural way of organizing economic life, neoliberalism has a constructivist element – it is concerned with the malleability of the future and embraces a speculative orientation. It views speculation not an irrational deviation from fundamental values but as the distinctive orientation of the modern subject.

When this logic comes fully into its own, it poses a challenge to any clear-cut distinctions between defensive and offensive moves. And the implications of this have been helpfully elaborated in the work of Foucault's student François Ewald. He sees the development of risk governance in terms of a transition from defensive orientations that are primarily concerned with organizing insurance, to more purposely proactive orientations that work on the need to act amidst uncertainty, to make decisions in the absence of sufficient knowledge. Whereas the former rely mostly on calculable probability, the latter push into areas of risk where that logic loses its relevance. So, for a long time financial governance had a rather passive and reactive orientation, accommodating rather than using the dynamics of speculation. And this is where neoliberalism intervenes – it insists that governance should proactively engage the speculative dimension of economic life.

So we could say that neoliberalism represents the shift of governmental rationality from anticipation and prevention to preemption: it goes beyond a generic orientation towards the future to adopt a pragmatic concern with the uses of instability, uncertainty and crisis. Neoliberal policies have often been oriented not to the prevention of failure but to its preemption – in the dual sense of the word, both activating it and forestalling its most serious consequences. Volcker saw the American financial system heading for a massive crisis, and he acted on this awareness preemptively, by triggering a potentially productive crisis. The turn to monetarism was meant to provoke, driven by the intuition that a sudden policy turn could activate some of the financial system's self-organizing mechanisms. The Volcker shock did not enforce an external quantitative limit on the creation of credit (which would be the literal interpretation of the role of monetarism) but activated some of the financial system's key self-organizing mechanisms.

But we should be alert to the element of banality here: the preemptive orientation of neoliberal financial policy has been accompanied by an institutionalization of bailouts. Volcker may not of course have imagined the specific institutional contours of the too-big-to-fail regime as this has emerged since the 1980s, but the very point of his policy turn was to create a context where a more selective application of insurance principles would be politically and economically viable. At the level of policymaking concerns with moral hazard and excessive credit growth gradually gave way to a general acceptance that periodic crises would

continue to occur and that after-the-fact bailouts would have to play a role in containing their fallout. This involved a shift from "failure prevention" to "failure containment", to borrow terms from Panitch and Gindin. Among Federal Reserve insiders this became known as the "mop up after" strategy. And this also makes it understandable that – whatever the official rhetoric – for all practical intents and purposes policymakers have been concerned not with reducing moral hazard but with enhancing capacities for too-big-to-fail interventions.

So, this transition to what I have referred to as a preemptive mode of governance should not be understood as a clean replacement of one principle with another: the speculative orientation of neoliberal governance always continues to articulate with the continued operation of normalizing forces and the principle of insurance. And this is quite crucial to the logic at work: the neoliberal concern to provoke the future, to trigger uncertainty and to make it productive, is complemented by a reactionary moment that manifests itself fully when uncertainty threatens to tip over into failure. At such times, society has no option but to protect the nodal points of financial interconnectedness, historically generated patterns of power. During the financial crisis public authority became highly speculative, investing itself in assets whose value was fundamentally in doubt; but at the very same time its policies were driven by a strong sense of necessity, grounded in the widespread recognition that it was simply doing what had to be done. The logic of preemption now manifests itself in its third sense, as a foreclosure on the future.

Critical perspectives tend to view crisis and the need for bank bailouts as manifesting the essential incoherence of neoliberal finance, its lack of solid foundations. In Capital and Time I move away from such an essentializing and formalistic understanding of these phenomena, and instead I try to conceptualize them as part of a wider logic that is characterized by its own internal coherence. Speculation is disruptive and by its nature holds the possibility of failure, and there is no doubt some value in pointing that out as a way of questioning the claims of orthodox economics about equilibrium. But we should also be able to make sense of the productive aspect of speculation, specularity's capacity for self-organization.

Heterodox perspectives have generally assumed that capacities for financial governance and economic order are dependent on the capacity of public institutions to extricate themselves from speculative financial processes. This means that they have been unable to recognize let alone engage the distinctive rationality of neoliberal governance – which is grounded in a recognition of the limits of rational-constructivist conceptions of order, and an awareness of the necessary and productive role of speculation. And this persistently hampers our ability to think about finance and neoliberalism in a way that is critical rather than moralistic.

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